Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

January 31, 2007

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: **Big Sandy Water District - Case No. 2007-00014**

Dear Ms. O'Donnell:

We are writing this letter in response to your deficiencies letter of January 24, 2007.

807 KAR 5:001: Section 9(2)(a) - the proposed new construction will provide the District with more accurate meter readings thereby making the water charges to customers more fair and also will reduce the cost of monthly meter readings.

807 KAR 5:001: Section 9(2)(b) - no franchises or permits are required for the new construction. We are attaching a description of the radio read meters for your information.

807 KAR 5:001: Section 9(2)(c) - description of the proposed construction - the District will be changing out old meters for the new radio read meters throughout the entire system. There are no public entities or persons with whom the proposed new construction is likely to compete.

807 KAR 5:001: Section 9(2)(d) - maps of the District's system are being forwarded by the District's engineers, Sisler-Maggard, Lexington, Kentucky.

807 KAR 5:001: Section 9(2)(f) - there is attached hereto a cost summary which explains the estimated cost of operation after the radio read meters are installed.

In response to your request on page 2 of the deficiencies letter, as is stated in paragraph 11(e) of the original Application, the District is using approximately $321,688 of the proceeds of the KRWFC Loan to payoff certain interim financing notes issued by KRWFC. The proceeds of these notes were used by the District to construct certain water line extensions in the ordinary course of

business in Lawrence County. These interim financing notes mature on February 1, 2007 and are being repaid (not refinanced) with the long term KRWFC Loan. Accordingly, the District is not realizing any savings in this transaction.

The KRWFC Loan is payable from and secured by a pledge of the revenues of the District's waterworks system.

If you have any additional questions or need any additional information, please let us know.

Sincerely,

Rubin & Hays

By
W. Randall Jones

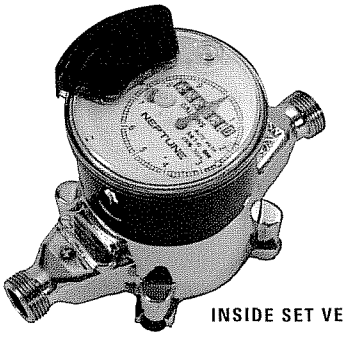
WRJ:jlm
Enclosures

cc: Ms. Teresa Brown, Big Sandy Water District

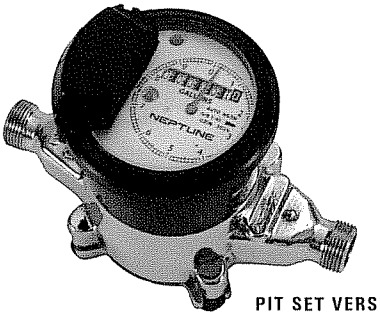
ARB® UTILITY MANAGEMENT SYSTEMS™

NEPTUNE TECHNOLOGY GROUP

PROREAD™ REGISTER



INSIDE SET VERSION



PIT SET VERSION

Neptune water meters and absolute encoders form the foundation of accurate and reliable ARB® Utility Management Systems™. Since 1964 when Neptune introduced the first absolute encoder, Neptune has held firm to the philosophy that both the local visual reading and remote electronic reading should come from the same source. Today there are approximately 19 million encoders in use. Neptune guarantees the data integrity of all our absolute encoders.

The ProRead™ (ARB® VI) absolute encoder provides data integrity by encoding the actual position of the register odometer and providing error-free remote electronic meter reading capability. The ProRead encoder allows utilities to capture more reads per day, shorten billing cycles, and automate bill preparation to improve cash flow. The ProRead absolute encoder and data collection systems work together to eliminate billing discrepancies and customer complaints by providing accurate meter readings the first time, every time – guaranteeing efficiency, long-term value, and peace of mind for utilities.

ProRead is the first step toward a totally automated metering system. The ProRead register provides the actual direct reading of the register odometer and provides error-free remote electronic capability without the need for batteries. The ProRead is a fully programmable register with an ID number of up to 10 digits, three user characters, 3-6 digit meter reading and meter networking to allow connection of two registers to one remote. For reading convenience, the register can be mounted in one of four different positions on the meter bayonet. For ease of installation, the ProRead register can automatically detect 2-wire and 3-wire register protocol without programming.

PROREAD INSIDE SET VERSION

The inside set version features a non-oil-filled standard plastic polycarbonate enclosure for installation in basement or inside applications only.

PROREAD PIT SET VERSION

The pit set version features a non-oil-filled roll-sealed copper shell and glass lens housing similar to our standard direct read register housing for superior protection in a harsh pit environment.

KEY FEATURES

- *Absolute encoder technology*
- Available in pit and inside set versions
- Pit set version: Roll-sealed copper shell and glass lens, oil-free design, factory *pre-wired and potted*
- Inside set version: Plastic enclosure, oil-free design
- Error-free remote electronic reading
- Automatically detects 2-wire and 3-wire register protocol
- Reprogrammable 1-10 digit ID, 3-6 digit meter reading
- Full sweep hand for testing
- Leak detection on register face
- Tamperproof seal to meter

KEY BENEFITS

- Foundation of AMR
- Accurate and reliable meter reading
- Eliminates billing discrepancies and customer complaints
- Allows the capture of more reads per day
- Shortens billing cycle
- Automates bill preparation to improve cash flow

METER READING COST

DIRECT READING
$14 PER HOUR SALARY AVERAGED
$22.96 ($24.00) PER HOUR SALARY PLUS BENEFITS AVERAGED
$10.00 PER HOUR FOR TRUCK AVERAGED

IT TAKES APPROX. 500 HOURS TO READ METERS FOR EACH 3 MONTHS
2000 HOURS PER YEAR AT $33.00 PER HOUR
TOTAL $66,000

RADIO READ
WE ESTIMATE IT WILL TAKE 20 HOURS A MONTH TO READ THE 4000 METERS

240 HOURS FOR YEAR AT $33.00 PER HOUR AVERAGED
TOTAL $8,000 PER YEAR LABOR FOR RADIO READING

DIFFERENCE OF $58,000 A YEAR SAVINGS
$58,000 DIVIDED BY 12 WOULD BE $4,833 A MONTH
$4,833 LOAN PAYMENT A MONTH ON A 5%, 10 YEAR LOAN WOULD ALLOW A LOAN AMOUNT OF $455,661.76

TOTAL COST OF THE PROJECT IS $543,050

METERS THAT WILL NEED TO BE PURCHASED OVER THE NEXT 10 YEARS TO MEET PSC REQUIREMENTS:

1000 AT $90 (TODAY'S PRICES) EQUALS $90,000
METERS WITH RF (TODAY'S PRICES) EQUALS $203,000
ASSUMING PRICES INCREASE 5% OVER THAT TIME, IT WOULD EQUAL $94,500, (OR $213,500 WITH RF)

SINCE THESE METERS WILL BE A PART OF THE PROJECT, WE WILL NOT NEED TO SPEND THIS MONEY WHILE WE ARE PAYING THE LOAN.
THIS EFFECTIVELY REDUCES THE AMOUNT OF THE PROJECT TO $448,500.00 (OR $329,550 WITH RF)
(WE ARE ACTUALLY USING THE FINANCING TO PAY FOR THE SAVINGS IN LABOR PLUS THE PURCHASE OF METERS NEEDED DURING THAT TIME PERIOD, LOCKING IN TODAYS PRICES AND RECEIVING A PRICE REDUCTION BY BUYING A LARGE NUMBER.)

OTHER ISSUES:

WATER LOSS WILL DECREASE. WE WILL BE ABLE TO MONITOR THE READINGS ON THE METES IN EACH SECTION, COMPARING THEM WITH THE MASTER METER, TO LOOK FOR LEAKS. THIS WILL REDUCE OUR COST OF WATER.

WE CAN EXPLORE THE POSSIBILITY OF GENERATING REVENUE BY READING METERS FOR AEP. THEY ARE CURRENTLY USING THE SAME HANDHELD READING SYSTEM, AND IT IS POSSIBLE THAT OUR SOFTWARE CAN GENERATE THE INFORMATION THAT CAN BE SENT TO THEM. THIS WOULD BE PARTICULARLY TRUE IN AREAS REMOTE AND COSTLY TO AEP THAT WE ARE SERVING.

WE WILL SPEND OUR LABOR MONEY ON THINGS THAT GENERATE REVENUE AND SAVINGS, RATHER THAN WALKING AROUND READING METERS. THESE ARE ITEMS THAT WILL SAVE MUCH MORE MONEY, AND THEY ARE NORMALLY NEGLECTED WHEN THE LABOR FORCE SPENDS ITS TIME READING METERS, RESPONDING TO CUSTOMER REQUESTS, TURNING OFF AND ON SERVICE, AND OTHER ROUTINE TASKS.

THEY INCLUDE:

PUMP MAINTENANCE:
IF PUMPS CANNOT BE SERVICED REGULARLY, EVENTUALLY WE WILL NEED TO REPLACE THEM WHEN THEY COULD HAVE BEEN KEPT IN SERVICE MUCH LONGER. REPLACEMET COSTS WILL BE MUCH HIGHER THAN REGULAR MAINTENANCE.

VALVE MAINTENANCE:
WHEN VALVES GO UNTURNED FOR LONG PERIODS OF TIME, THE RESULTS ARE COSTLY. DURING A MAIN BREAK, IF THE CLOSEST VALVE CANNOT BE CLOSED, THOUSANDS, OR HUNDREDS OF THOUSANDS OF GALLONS OF WATER ARE LOST. IF A VALVE FARTHER FROM THE SITE MUST BE USED, THEN WATER IS SHUT OFF FOR MANY MORE PEOPLE WHILE THE BREAK IS REPAIRED. REPLACING THE VALVE, LIKE A PUMP, IS MUCH MORE COSTLY THAT REGULAR MAINTENANCE.

TANK MAINTENANCE:
THE PSC IS NOW REQUIRING US TO INSPECT OUR TANKS AND MAINTAIN THE SURROUNDING AREA. DETAILED RECORDS MUST BE KEPT FOR THIS OPERATION. THIS WILL PUT A FURTHER STRAIN ON OUR TIME IF WE CANNOT FREE UP SOME OF OUR LABOR.

CONTINUED EXPANSION:
OUR LABOR CAN BE USED TO UPGRADE PIPE SIZES IN AREAS THAT ARE EXPANDING TO THE POINT THAT THE EXISTING MAINS WILL EB INSUFFICIENT. WE CAN FOREGO THE COST OF CONTRACTING THIS LABOR BY USING OUR PEOPLE.